



## SECTION 5

# Carry-Forward and Maintenance Levels

## 5.1 What is the carry-forward level?



**What is the carry-forward level?**

**OFM calculates and provides the carry-forward level to agencies**



The carry-forward level is a reference point created by calculating the biennialized cost of decisions already recognized in appropriations by the Legislature.

In consultation with legislative staff, OFM calculates the carry-forward level for each agency and provides agencies with a worksheet indicating the amount by account that must be placed in budget submittals. OFM budget analysts will be discussing these calculations with agencies as soon as possible after the passage of the 2004 supplemental budget. We expect carry-forward levels to be finalized by mid-May 2004.

At the agency and fund level, the carry-forward level in the agency budget submittal must match the total for each account-appropriation type on the OFM carry-forward cost worksheet. Agency budget submittals should display at least one incremental step between current biennium and carry-forward level to reflect total changes. Since the OFM budget database will already contain all the specific incremental items that belong in carry-forward level, it is not necessary for an agency to create a decision package for each item.

OFM uses recommendation summary (RecSum) codes to summarize common items of change at the statewide level. These codes are identified on the report sent to agencies indicating carry-forward level amounts by account. Agencies should consider using these codes in their own budgets for consistency and comparative purposes.

**How OFM calculates the carry-forward level**

The OFM calculation starts with the 2003-05 expenditure authority as represented by current appropriations, compensation or other allocations, and the nonappropriated funds assumed in the legislative budget. Governor's Emergency Fund allocations are considered nonrecurring costs and are not typically added to the base. Adjustments are then made for biennialization of legislatively directed workload and services changes and for deletion of costs that the Legislature considered nonrecurring. Nonappropriated funds are adjusted to match allotments. These ensuing biennium revisions generally match legislative assumptions of "bow wave."

Unanticipated receipts received and approved in 2003-05 that will continue in 2005-07 are also considered part of carry-forward level if approved prior to the finalization of the carry-forward cost calculation. (See Section 5.4.)

**Examples of carry-forward level adjustments**

**Legislatively directed workload changes** – Only those changes already recognized by the legislative appropriation level in 2003-05 (or for nonappropriated accounts, through a change in the legislative budget database or allotments) are included. Examples: staffing for opening of new facilities; biennialization of the cost of mandatory caseload, enrollment, or population growth that occurred during 2003-05.

**Legislatively directed changes in level of services** – Again, only the carry-forward of those changes recognized by the Legislature through revised appropriations are included in carry-forward level. Examples: a change from annual to semi-annual inspections, or an increased resident-counselor ratio.

**Nonrecurring costs** – Nonrecurring costs usually reflect deletions of what the Legislature has identified as projects or other short-term expenditures. Legislatively directed nonrecurring costs are eliminated in carry-forward level; agency-generated savings would be shown as negative adjustments in maintenance level.

**Some changes will not be part of carry-forward**

Increases in Fiscal Year 2005 expenditure levels not specifically authorized by the Legislature, such as agency reallocation of dedicated funds from FY 2004 to FY 2005, are excluded from the bow wave calculation for carry-forward level. Fiscal Year 2005 increases in nonappropriated fund sources would have to be supported by a specific tie to legislative direction or an approved allotment before being included.

**The Recommendation Summary reports submitted to OFM must contain OFM's carry-forward level amount**



Carry-forward decision packages prepared in BDS will not be released to OFM; OFM will use its calculated carry-forward level as the base data. However, OFM and legislative staff do use the Recommendation Summary reports provided by the agency in its budget submittal. **These reports must match the OFM-approved carry-forward level or OFM will ask agencies to resubmit correct reports. Agencies will not be able to electronically release the budget from BDS when the carry-forward level for the version does not match OFM's carry-forward level.**

## 5.2 What is maintenance level?

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**What is maintenance level?**

Maintenance level reflects the cost of mandatory caseload, enrollment, inflation and other legally unavoidable costs not contemplated in the current budget. Expenditure adjustments may be positive or negative, depending on expected experience in the ensuing biennium. Agencies will notice that BDS splits maintenance level into two different levels to indicate different kinds of maintenance level costs.

**Who prepares maintenance level?**

Agencies prepare the maintenance level component of the budget submittal. Like the carry-forward level, maintenance level is a reference point for budget consideration; it is not a guarantee of that amount of funding.

**Maintenance level 1 includes mandatory caseload and enrollment changes**

A mandatory caseload or enrollment change arises from an explicit statutory requirement for state-funded services. A change in the demand or the need for a service is not mandatory unless the recipients of that service (or benefactors of the activity) are entitled by statute or rule. These kinds of maintenance level changes are entered as maintenance level 1 items in BDS.

Be sure to identify projected caseload growth separately for each discrete service provided by the agency – at the same level of detail as forecasted by the Caseload Forecast Council.

**Maintenance level 2 includes inflation and other rate changes**

Costs related to inflation and mandatory rate changes are included in BDS as maintenance level 2 items. Examples of these types of changes include: OASI rate revisions, salary increments (for agencies with less than 100 FTE staff), general inflation, existing lease/purchase contract payments, utility expenses, and increased costs for existing leases. Costs for new leases, moves, or acquisition of new space should be included in the performance/policy level budget request.

**Salary increments**

Because vacancy rates typically result in savings that can offset salary increment costs in large agencies, agencies exceeding 100 FTE staff per year should not include merit system salary increments in their maintenance level calculation. Smaller agencies may identify increments as long as the cost does not exceed 2.5 percent of annual salaries. If an agency believes it has justification for salary increments beyond these limits, they should include them in their performance/policy level. Salary increments should not be added for exempt or Washington Management Service (WMS) staff.

**Nonappropriated expenditure adjustments**

Unless they are part of a performance/policy level decision package, budgeted/nonappropriated expenditures beyond current allotment belong in the maintenance level 2 category. Display all nonappropriated expenditure adjustments on one line, using the RecSum code 9J, "Nonappropriated Funds Adjustment," regardless of the number of fund sources or programs. The decision package for this item should explain any changes in OFM-approved allotment levels from the current biennium.

The 2005-07 budgeted level for nonappropriated funds will become the control numbers for the 2005-07 allotment of those accounts. For this reason, agencies should budget the maximum amount they anticipate spending in the ensuing biennium. Decision packages for nonappropriated accounts that reflect a policy change should be requested in the performance level of the agency's budget.

**Agencies must use OFM-specified RecSum codes for maintenance level items**

OFM has developed recommendation summary (RecSum) codes in order to more clearly identify maintenance level items of change at the statewide level. Agencies must use the RecSum codes identified below for any maintenance level changes. Please note that most maintenance level changes will fit within a specific category, but there is a miscellaneous rate change code and a miscellaneous other change code if needed. Please discuss items you wish to include in these categories with your OFM analyst before submitting them. You may include more than one change within the decision package, but the decision package description and expenditure calculations and assumptions should clearly identify each change.

Budget Level	RecSum Code	Description
ML1	8A	Federal Requirements Workload, DSHS
ML1	93	Mandatory Caseload Adjustments
ML1	94	Mandatory Workload Adjustments (other than SPI)
ML1	95	Enrollment/Workload Adjustments, SPI
ML1	9C	Initiative 732 COLA
ML1	9R	Utilization Changes (DSHS only)
ML2	8B	Technical Corrections (with concurrence of OFM only)
ML2	8C	Minimum Wage Adjustments
ML2	8D	Budget Structure Changes (LEAP-approved)
ML2	8E	Interagency Rate Changes (Motor Pool, Personnel Services Charges, etc.)
ML2	8F	Fuel Rate Adjustment
ML2	8G	Approved Allotment Changes Above CFL (DSHS only)
ML2	8H	Assessments (weed and fire assessments)
ML2	8L	Lease Rate Adjustments
ML2	8M	Mileage Rate Adjustments
ML2	8P	Postage Rate Adjustments
ML2	8R	Retirement Buyout Costs (smaller agencies may identify costs)
ML2	8U	Utility Rate Adjustments (for non-General Administration utility billings)
ML2	8X	Self-Insurance Premiums
ML2	8Y	Other Rate Adjustments
ML2	90	Central Service Agency Charges (OFM use only)
ML2	91	Workers Compensation Changes
ML2	96	Fire Suppression 10 year average adjustment
ML2	97	Merit System Increments (less than 100 FTEs)

ML2	98	General Inflation (OFM use only)
ML2	99	OASI Adjustments
ML2	9D	Pension Rate Changes (OFM use only)
ML2	9E	Other Fund Adjustments
ML2	9F	Federal Funding Adjustment
ML2	9G	FTE Staff Adjustment (with no dollars associated)
ML2	9H	FMAP Match Adjustment
ML2	9I	K-12 Inflation
ML2	9J	Nonappropriated Funds Adjustment
ML2	9K	Levy Equalization Update (SPI only)
ML2	9L	Local Funding Adjustment
ML2	9M	Medical Inflation
ML2	9N	Contractual Obligation Adjustments
ML2	9P	Pension Adjustments, other than rate changes
ML2	9Q	Equipment Maintenance/Software Licenses
ML2	9S	Equipment Replacement Costs (for extraordinary replacement costs not part of CFL)
ML2	9T	Transfers (between programs, agencies, years, or funds)
ML2	9U	Unanticipated Receipts not included in CFL (ongoing)
ML2	9V	Operating Costs/Existing Capital Projects
ML2	9Y	Other ML Adjustments
ML2	9Z	Recast to Activity

**How to treat payments to central service agencies in maintenance level**

Do not include maintenance level changes for payments for the central service accounts listed in Section 13.3 in the agency budget submittal. They will be added by OFM in the fall when decisions have been made on these central service agency budgets. Agencies will be provided with a base amount and proposed fund splits in the spring and will be asked to review and request changes to fund splits at that time. (See Section 13.3 for more information.)

### 5.3 Inflation for maintenance level

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**OFM will calculate general inflation this year**

OFM will calculate the general inflation to be included in agency maintenance level budgets. It will be applied to agency budgets after they are submitted. OFM will use an approach to calculate inflation similar to historical methods.

OFM will use the following inflation factors, which are based on economic forecasts of the Implicit Price Deflator (IPD) for personal consumption, as measured by the U.S. Department of Commerce. The IPD is used for determining inflation for state budgeting purposes because it is considered more representative of the general mix of goods and services purchased by the state than other indicators available. The other primary inflation index, the Consumer Price Index (CPI), may not adequately allow for the effects of technology and quality changes.

#### Inflation Factors by Fiscal Year – Percentage Change

	Actual <u>2003</u>	Forecast <u>2004</u>	→ <u>2005</u> <u>2006</u> <u>2007</u>		
% Change	1.9	1.3	1.2	1.6	2.0

#### Seeking a rate exception

If an agency believes a different rate is justified, that rate should be approved by the OFM analyst prior to the agency budget submittal. The difference between the rate shown above and any other approved rate can then be shown as a decision package item in the performance level budget.

## 5.4 How to treat unanticipated receipts

#### What are unanticipated receipts?

“Unanticipated receipts” are monies received from the federal government or other non-state sources that were not anticipated in the appropriations approved by the Legislature and can only be used for a purpose specified by the grantor. A statutory process described in RCW 43.79(270) allows agencies to request expenditure authority for these unanticipated revenues through OFM.

#### Where should they be included in the budget?



Ongoing funding for unanticipated receipts approved before finalization of carry-forward level (expected to be mid-May 2004) may be requested as part of the 2005-07 carry-forward level as long as they meet the following criteria:

- There is a realistic expectation that the original funding source support will continue; and
- The activity is consistent with stated programs, goals, and objectives of the agency.

Requests to budget revenue and expenditures originally received as unanticipated receipts should reflect an ongoing source of funding (i.e., federal or local), rather than coding for unanticipated receipt appropriation types.